

CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

23 January 1957

STAFF MEMORANDUM NO. 6-57

SUBJECT: Impact of the Suez Situation on World Developments

Problem

1. At the IAC meeting on 27 November 1956 the Air Force proposed an estimate of the political, economic, and strategic impact of the Middle East situation on Western Europe; there was discussion of broadening the scope of the estimate to other areas. The IAC agreed that:

"The Board of National Estimates should draft, on a priority basis, terms of reference envisioning a paper along the lines of, but broader in scope than that proposed by the Air Force. These terms of reference would be discussed by the Board and IAC representatives and a final recommendation made with respect to whether the final paper should be done in one or more installments." (Ref. IAC-M-268)

2. Subsequently, the Board recommended, and the IAC representatives agreed that: (a) an immediate paper be undertaken for Western Europe and that it be broadened to include the impact of the situation in Eastern Europe as well as in the Middle East, (b) we consider at a later date the desirability of an estimate of the effects on other areas. In making these recommendations the Board pointed out that the effects of the Suez Canal closure on areas other than Western Europe would be slow in developing and that if the Canal was reopened early in 1957, the effects would not prove critical. (Ref. O/NE Memorandum dated 29 November 1956, transmitting terms of reference for SNIE 20-56)

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Recommendation

3. In view of the Board's responsibility, the Staff has reviewed the problem. We propose that the Board recommend that no additional estimate be undertaken pursuant to the IAC action of 27 November 1956 for the following reasons:

a. Available evidence indicates that if the Suez Canal is reopened in the time period assumed by SNIE 20-56 on Western Europe -- i.e., partial clearance in early March 1957 and full clearance in May -- the shutdown of traffic will not have critical effects on the economies of countries outside Western Europe. The most serious effect will be on the oil producing and transit states of the Middle East, but the temporary closure of the Canal is not likely to have a decisive effect on the policies or outlook of Middle Eastern states.

b. Present indications are that the Canal will be cleared at the rate proposed in SNIE 20-56, although the danger of later closures cannot be precluded.

c. The over-all impact of the Suez crisis and developments in Eastern Europe has been considered in the World Situation paper. The situation in the Middle East, where political and other repercussions of the Suez crisis are most direct, also will be considered in the forthcoming SNIE 30-2-57, "Major Factors Affecting US Interests in the Middle East."

Prospects for Reopening of Suez Canal and IPC Pipelines

4. General Wheeler's plan for UN salvage operations along the canal envisions that a channel for ships of up to 25 feet draught can be cleared by early March 1957 and that full clearance can be completed in May. The planned partial clearance in early March will permit most dry cargo ships and empty tankers to use the Canal. Empty tankers will be able to go through and return loaded by the Cape, thus shortening the round trip from Western Europe from about 70 to 55 days.

5. There is no immediate basis for estimating that Egypt will delay UN salvage operations. One immediate Egyptian objective would appear to be the clearance of the Canal and the removal of UN forces from Egyptian territory. However, political disagreements could inhibit its full use after clearance. Egypt has threatened that British and French ships will not be permitted to use the canal until Israeli forces have withdrawn from the Gaza strip and Tiran.

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Economic Impact of the Closure of the Suez Canal

6. All available US Government papers, including a recent State study on "The Economic Consequences of the Closure of the Suez Canal," (IR 7489, dated 7 January '57) have assumed that it would be partially reopened in March and completely reopened in May. Business and government circles in the trading countries of the world also appear to be basing their expectations and plans on this assumption. After Western Europe, the dislocations and costs of such a temporary closure of the canal fall most heavily on countries in the Middle East. Most of the oil producing countries in this area are experiencing substantial losses in government revenues and foreign exchange. The State study estimates that Saudi Arabia "may be in considerable fiscal difficulties in this period."

7. In most of the non-Communist countries of Asia and Africa the short term reduction in petroleum supplies will be largely absorbed by the drawing down of stocks. If the cut-back in petroleum supplies was to last a somewhat longer period the effect on production and exports in many of these countries would be substantial.

8. All of the countries dependent on the Canal for the movement of trade -- especially those bordering the Red Sea, Persian Gulf and Indian Ocean -- will experience some reduction of trade and higher freight costs due to longer sea hauls and the shortage of shipping. State has estimated that increases in freight costs probably will not exceed 4 percent of the total value of imports by less developed countries and will decline to under 2 percent after the partial reopening of the Canal. The assumed short duration and magnitude of the impact on imports will not be large enough, particularly in view of existing stocks in most countries, to effect significantly economic activity in Africa, South Asia or the Far East. In some instances, delays in imports will tend to aggravate existing economic weaknesses such as previously postponed imports of industrial spare parts by Pakistan and the pressure on domestic grain prices in India, but the over-all impact on their economies will not be substantial.

9. Exports will be somewhat more seriously curtailed than imports because of the greater bulk involved in raw material exports from the less developed areas. The piling up of export inventories will be serious for countries attempting to market perishable crops in this period, e.g., Somalia bananas, its principal export. Reduced exports and higher freight charges will mean greater trade deficits, which could increase by as much as \$50 million for India and by perhaps the same amount for all of Africa. Reductions in trade will be much smaller in the Far East. In most cases the trade reductions will have little over-all economic importance since annual variations in trade levels are frequently much greater.